

No. 08-1423

IN THE
Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,
Petitioner,

v.

OMEGA S.A.,
Respondent.

**On Petition for a Writ of Certiorari
to the United States Court of Appeals
for the Ninth Circuit**

BRIEF FOR RESPONDENT IN OPPOSITION

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QUESTION PRESENTED

Whether § 602(a) of the Copyright Act of 1976, which provides that “[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106,” 17 U.S.C. § 602(a), applies to copies manufactured abroad by the owner of a copyright.

CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 29.6 of the Rules of this Court, respondent Omega S.A. states the following:

Omega S.A. is a wholly owned subsidiary of a publicly held Swiss corporation, The Swatch Group, Ltd. The Swatch Group, Ltd. is the parent company of Omega S.A.

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INTRODUCTION

Section 602(a) of the Copyright Act of 1976 provides that “[i]mportation into the United States, without the authority of the owner of the copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106.” 17 U.S.C. § 602(a). The law has been settled that § 602(a) applies to prevent the importation, without the authority of the U.S. copyright holder, of genuine copies made and sold overseas.

In *Quality King Distributors, Inc. v. L’Anza Research International, Inc.*, 523 U.S. 135 (1998), this Court determined that § 109(a) – which provides that “the owner of a particular copy . . . *lawfully made under this title* . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy,” 17 U.S.C. § 109(a) (emphasis added) – allows the owner of a copy lawfully made *in the United States* to re-import that copy. In reaching that determination, this Court rejected the argument that its decision would render § 602(a) “superfluous,” noting that “§ 602(a) applies to a category of copies that are neither piratical [*i.e.*, counterfeit] nor ‘lawfully made under this title.’” *Quality King*, 523 U.S. at 146-47. “That category encompasses copies that were ‘lawfully made’ not under the United States Copyright Act, but instead, under the law of some other country.” *Id.* at 147.

In this case, the Ninth Circuit held that copies made abroad by the holder of a U.S. copyright for sale abroad are not “lawfully made under this title” and therefore not subject to the first-sale defense of § 109(a). That decision – which applies the law as it already has stood for at least a quarter century –

does not merit this Court’s review. There is no division of authority on the question presented – the Ninth Circuit is the only court of appeals to have ruled on this issue, and the law in the Ninth Circuit is consistent with unanimous federal district court authority across the circuits. Furthermore, petitioner concedes that there are some circumstances – for example, where a foreign manufacturer receives a license only under a *foreign* copyright from a U.S. copyright holder – where genuine, foreign-manufactured goods are not “lawfully made under this title.” See Pet. 14, 17. Petitioner argues that this case is different only because the goods were manufactured *by the owner* of the U.S. copyright. Therefore, if the Court were to adopt petitioner’s suggested loophole in the coverage of § 602(a), that loophole could be easily plugged by ensuring that the same legal entity did not both hold the U.S. copyright and manufacture the goods. The question is thus of little importance, because its resolution will not meaningfully affect future conduct.

In any event, the Ninth Circuit’s decision is correct. It gives effect to the plain language of § 109 – which provides a defense for copies “lawfully made *under this title*,” not for copies made under the law of a foreign jurisdiction. It correctly reflects the principle that the Copyright Act does not apply extraterritorially; making copies in foreign countries does not implicate any of the copyright holder’s exclusive rights under the Copyright Act. The Ninth Circuit’s decision is fully consistent with *Quality King*, as the leading treatises recognize. And the decision gives effect to the intent of Congress to give copyright owners enforcement rights against unauthorized parallel imports, as reflected in the statute and the legislative history.

STATEMENT OF THE CASE

1. Respondent Omega, founded in 1848, makes watches in Switzerland. *See* C.A. E.R. 25, 91. It owns a registered U.S. copyright on an original artwork, the Omega Globe Design, which is laser-engraved into Omega watches at the time of their manufacture at Omega's facility in Switzerland.

Petitioner Costco Wholesale Corporation is a Fortune 50 corporation, with 2008 sales of \$71 billion. In 2003, Costco approached Omega to discuss Costco's interest in carrying OMEGA brand watches. *See id.* at 68 (¶¶ 20-21), 87-89. Costco threatened that, if Omega did not agree to make watches available to Costco through authorized channels on terms acceptable to Costco, it would obtain the watches elsewhere. *See id.* at 87-89.

When Omega did not agree to Costco's terms, Costco arranged to obtain OMEGA brand watches bearing the Omega Globe Design from a source that Costco knew was obtaining the watches outside of the United States and importing them without Omega's authorization. *See id.* at 14 (¶ 7), 21-22, 53-54. Costco then put the watches on sale in its retail stores at a price well below the prices charged by retailers selling watches that were imported with Omega's authorization. *See id.* at 111.¹

¹ Omega obtained two watches from Costco retail stores. *See* C.A. E.R. 42-43. Investigation revealed that the watches had been sold overseas under distribution agreements that restricted resale to specific geographic territories outside the United States. *See id.* at 111; Decl. of Sukru Cital ¶ 3 & Exh. A (attached to Pl.'s Mot. for Summ. J. (Dec. 5, 2006)); Decl. of David Polutrak ¶ 3 & Exh. A (attached to Pl.'s Mot. for Summ. J. (Dec. 5, 2006)).

2. Omega brought a one-count copyright infringement action under §§ 106 and 602 of the Copyright Act, alleging that Costco had distributed copies of Omega’s copyright-protected works without Omega’s authorization or consent. *See* C.A. E.R. 135-37 (¶¶ 27-40). In its answer, Costco alleged that Omega’s claim was barred by the first-sale doctrine, citing § 109 of the Act. *See* Answer ¶ 44 (Aug. 30, 2004). The district court initially issued a preliminary injunction against Costco. Later, however, the district court granted Costco’s summary judgment motion under § 109 and vacated the preliminary injunction. *See* Pet. App. 18a-19a. The district court did not explain its decision. *See id.*

3. The Ninth Circuit reversed. It noted that, under circuit precedent, § 109 of the Copyright Act “provide[s] no defense to an infringement action under §§ 106(3) and 602(a) that involves (1) foreign-made, nonpiratical copies of a U.S.-copyrighted work, (2) unless those same copies have already been sold in the United States with the copyright owner’s authority.” Pet. App. 3a; *see id.* at 7a-10a. The court then explained that *Quality King* neither overruled those precedents nor “undercut[] the theory or reasoning underlying the prior circuit precedent in such a way that the cases are clearly irreconcilable.” *Id.* at 10a (internal quotation marks omitted).

The Ninth Circuit held, first, that *Quality King* did not overrule prior precedent because that case “involved ‘round trip’ importation” – *i.e.*, a copy made inside the United States, sold from the United States to a third party overseas, and then shipped back into the United States. *Id.* “The Court held that § 109(a) can provide a defense to an action under § 602(a) in this context . . . [but], because the facts involved only

domestically manufactured copies, the Court did not address the effect of § 109(a) on claims involving unauthorized importation of copies made abroad.” *Id.* at 10a-11a.

The Ninth Circuit next explained that the reasoning in *Quality King* did not undermine circuit precedent either. Those earlier Ninth Circuit decisions had recognized that to deem a copy that was made overseas as “lawfully made under this title,” 17 U.S.C. § 109(a), “would violate the presumption against the extraterritorial application of U.S. law.” Pet. App. 11a. *Quality King*, the court noted, had “dismissed a similar concern that the triggering of § 109(a) by *foreign sales* would require an invalid extraterritorial application of the Copyright Act, explaining that merely recognizing the occurrence of such sales ‘does not require the extraterritorial application of the Act.’” *Id.* (quoting *Quality King*, 523 U.S. at 145 n.14). But “the application of § 109(a) to foreign-made copies would impermissibly apply the Copyright Act extraterritorially in a way that the application of the statute after foreign sales does not.” *Id.* at 12a-13a. “To characterize the making of copies overseas as ‘lawful[] . . . under [Title 17]’ would be to ascribe legality under the Copyright Act to conduct that occurs entirely outside the United States. . . . Specifically, it would mean that a copyright owner’s foreign manufacturing constitutes lawful reproduction under 17 U.S.C. § 106(1) even though that statute does not clearly provide for extraterritorial application.” *Id.* at 13a (brackets and first ellipsis in original).

The Ninth Circuit observed that “significant parts of *Quality King*’s analysis are also consistent” with circuit precedent. *Id.* “The Court found that copies

of a work copyrighted under Title 17 are not necessarily ‘lawfully made under [Title 17]’ even when made by the owner of the copyright: The category of copies covered by § 602(a), it was explained, encompasses ‘copies that were “lawfully made” not under the United States Copyright Act, but instead, under the law of some other country.’” *Id.* (quoting *Quality King*, 523 U.S. at 147) (alteration in original). “In short, copies covered by the phrase ‘lawfully made under [Title 17]’ in § 109(a) are not simply those which are lawfully made by the owner of a U.S. copyright.” *Id.* at 14a (alteration in original).

The Ninth Circuit cited Justice Ginsburg’s concurring opinion in *Quality King*, which expressly recognized that the Court’s opinion did not address copies made outside the United States. *See id.* at 15a.

4. Petitioner’s petition for rehearing and rehearing en banc was denied.

REASONS FOR DENYING THE PETITION

Petitioner seeks this Court’s review even though the Ninth Circuit applied an interpretation of the Copyright Act that has prevailed for 25 years, one that has generated no conflict among the courts of appeals and that creates no inconsistency between the decision below and any decision of this Court. The lower court decisions addressing the issue presented (other than the decision of the district court reversed below) are consistent with the Ninth Circuit’s decision. Furthermore, the Ninth Circuit’s decision is correct and fully consistent with the policies underlying the applicable provisions of the Copyright Act.

I. REVIEW IS UNWARRANTED BECAUSE THERE IS NO DIVISION OF AUTHORITY AND THE QUESTION PRESENTED IS OF LITTLE IMPORTANCE

A. There Is No Conflict of Authority

More than 10 years after this Court decided *Quality King*, no court has adopted petitioner’s construction of the Copyright Act – as petitioner concedes. See Pet. 27-28. The Ninth Circuit is the only federal court of appeals to address the issue. Petitioner and respondent have identified district court opinions from three circuits (including two in the Ninth Circuit) addressing this issue after *Quality King* was decided. Each of them reached the same conclusion: that § 109(a) does not provide a defense to unauthorized importation of copyrighted works manufactured and sold outside the United States.² There is no division of authority.

² See *Microsoft Corp. v. Big Boy Distribution LLC*, 589 F. Supp. 2d 1308, 1317 (S.D. Fla. 2008) (“[T]he first sale doctrine has no application to copyrighted works manufactured abroad because such works are not made ‘under this title.’”); *Microsoft Corp. v. Intrax Group, Inc.*, No. C 07-1840 CW, 2008 WL 4500703, at *3 (N.D. Cal. Oct. 6, 2008); *Microsoft Corp. v. Cietdirect.com LLC*, No. 08-60668-CIV, 2008 WL 3162535, at *5 (S.D. Fla. Aug. 5, 2008); *Pearson Educ., Inc. v. Liao*, No. 07-Civ-2423 (SHS), 2008 WL 2073491, at *3 (S.D.N.Y. May 13, 2008) (“[B]ecause a first sale defense only applies to the sale of copies that are ‘lawfully made under this title,’ the resale in the United States of copies manufactured outside the United States is not protected under the terms of the statute.”) (citation omitted); *Swatch S.A. v. New City Inc.*, 454 F. Supp. 2d 1245, 1254 (S.D. Fla. 2006) (“The wristwatches at issue here were manufactured and first sold abroad. Therefore, the Court’s opinion in *Quality King* does not protect Defendant from a claimed violation of § 602(a).”); *U2 Home Entm’t, Inc. v. Lai Ying Music & Video Trading, Inc.*, No. 04 Civ. 1233 (DLC), 2005 WL 1231645, at *4 (S.D.N.Y. May

Nor does the decision below “conflict with the reasoning” of the Third Circuit’s decision in *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988). Pet. 25. The Third Circuit specifically noted that its decision did *not* address “copies . . . produced abroad” and sold overseas. 847 F.2d at 1098. And it declined to disturb the decision in *CBS, Inc. v. Scorpio Music Distributors, Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff’d*, 738 F.2d 424 (3d Cir. 1984) (table), which is consistent with the Ninth Circuit’s interpretation. See 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.12[B][6](b), at 8-178.4 (rev. ed. 2009) (“The holding [of *Sebastian*] comports with *Scorpio*’s limitation on the first-sale doctrine to works ‘lawfully made under this title,’ *i.e.*, within the borders of the United States.”).

Petitioner argues that the very uniformity of federal precedent is reason for the Court to intervene, faulting district courts for not “rigorously examining § 109(a) and vigorously debating its meaning.” Pet. 27. But district courts before and after *Quality King* have carefully examined this issue when it has been presented. Given that the issue has arisen and been litigated periodically over 25 years, if the issue were subject to reasonable disagreement (which it is not, see *infra* pp. 13-24), there is no reason to doubt that a split in the circuits would eventually develop. But

25, 2005), *aff’d in part, vacated in part on other grounds*, 245 F. App’x 28 (2d Cir. 2007); *UMG Recordings, Inc. v. Norwalk Distribs., Inc.*, No. SACV 02-1188, 2003 WL 22722410, at *3-*4 (C.D. Cal. Mar. 13, 2003); *Lingo Corp. v. Topix, Inc.*, No. 01 Civ. 2863 (RMB), 2003 WL 223454, at *4 (S.D.N.Y. Jan. 31, 2003); cf. *UMG Recordings, Inc. v. Disco Azteca Distribs., Inc.*, 446 F. Supp. 2d 1164, 1173 (E.D. Cal. 2006).

unless and until that happens, there is no reason for this Court to address the issue.

B. The Issue Presented Is Inconsequential

Section 602(a) was added to the Copyright Act in 1976; in 1983, the district court for the Eastern District of Pennsylvania decided *Scorpio*, which held that the first-sale defense of § 109(a) was not available in the case of goods manufactured and sold overseas. *See* 569 F. Supp. at 49. That rule has prevailed since that time. *See* 2 Paul Goldstein, *Goldstein on Copyright* § 7.6.1.2.a, at 7:141 (3d ed. 2007).

The claims of petitioner and its *amici* that the issue presented is of great importance are unsustainable in light of the fact that the ruling under review does not alter settled law as it has been widely understood for a quarter century. Petitioner and its supporting *amici* cite nothing to support the view that enforcement of § 602(a) to prohibit importation without authorization of goods made abroad by the holder of a U.S. copyright has had any “significant impact” (Pet. 20) on any sector of the economy.

Indeed, even if this Court were to grant review and reverse, that decision might complicate business planning for some U.S. copyright holders – which have relied on settled law in ordering their affairs – but it would not have any significant economic impact. This Court made clear in *Quality King* that a U.S. copyright holder can authorize a foreign manufacturer to make copies for sale in foreign markets *under a foreign copyright* without authorizing importation into the United States of the copies made and sold overseas. In that case, the Court held, “the first sale doctrine would not provide a defense to” an infringement action if those copies were imported into the United States. 523 U.S. at 146-47. Petitioner

concedes the point: they argue that, if a copyright owner gave “Person A” “exclusive American publishing rights” and “Person B” “exclusive British publishing rights,” “B’s books are not lawfully made under the Copyright Act . . . because B did not receive U.S. rights from the copyright owner.” Pet. 14; *see also* Pet. 17 (conceding that first-sale doctrine does not apply “to copies lawfully made under foreign law”).

Petitioner argues that this case should be treated differently because respondent manufacturer is also the *owner* of the U.S. copyright. *See* Pet. 9-10 (“because Omega is the U.S. copyright holder, any copies that it makes are necessarily in compliance with” the Copyright Act); Pet. 19 (“[p]ermitting use of the first-sale doctrine here requires nothing more than a factual determination about whether the manufacturer abroad is the U.S. copyright holder”).³

But it would make no sense for the application of the first-sale doctrine to turn on whether the foreign manufacturer is the holder of the U.S. copyright. If that were the law, a U.S. copyright holder that wanted to maintain enforcement rights against unauthorized imports provided by § 602(a) would simply arrange its affairs to ensure that the same legal entity did not both hold the U.S. copyright and manufacture the copy abroad. For example, a manufacturer could transfer the U.S. copyright to a separate subsidiary. That subsidiary could decline to

³ Some *amici* seek to draw the same distinction. *See* Brief for eBay Inc. 3 (“[t]his case raises the question whether copyrighted goods manufactured abroad *by United States copyright owners* are entitled to . . . downstream protection”) (emphasis added); *see also* Brief of Retail Industry Leaders Association *et al.* 18-19 (“[a]ny item lawfully made by or with the authority of the United States copyright owner is made ‘under this title’”).

give the manufacturing entity any right to import or distribute copies in the United States, and instead authorize importation by another entity. *Cf. Disenos Artisticos E Industriales S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996) (noting that, where copyright holder is a subsidiary, “that does not mean that the parent owns the copyright”). If the manufacturer itself held no license to the U.S. copyright, petitioner concedes – and *Quality King* makes clear – that the first-sale defense would not be available.⁴

As the Court expressly recognized in *Quality King*, § 602(a) is designed to ensure that a copyright holder can authorize exclusive distribution in the United States without facing the threat that unauthorized importation of goods manufactured “under the law of some other country,” 523 U.S. at 147, will undercut the value of U.S. distribution rights. *See 2 Goldstein on Copyright* § 7.6.1.2.a, at 7:141 (“[C]ompetition with lower priced imports would inevitably prevent the United States copyright owner from realizing the full value of the copies . . . that it sells.”); *Swatch*, 454 F. Supp. 2d at 1254 (“Under Section 602(a), Swatch had the right to prevent these products from entering the

⁴ By the same token, the argument that petitioner’s rule would somehow free downstream retailers from the task of determining whether copies were imported with authorization is incorrect. Because § 602(a) applies to *some* genuine copies imported without authorization – as petitioner concedes, *see* Pet. 14, 17 – a retailer may be liable for infringement if it sells copies of unknown provenance that turn out to have been imported in violation of § 602(a). (That concern is not implicated here in any event, however, because *Costco* *deliberately* acquired copies that it knew were imported without authorization, after *Omega* had the temerity to decline *Costco*’s proposed distribution terms.)

United States and competing with the identical products authorized to be distributed here.”⁵ Given that principle – which petitioner does not challenge – a U.S. copyright holder will be able to ensure that copies made abroad cannot be lawfully imported without authorization. Petitioner’s rule could increase transaction costs – by requiring copyright holders to create increasingly complicated contractual arrangements to preserve the enforcement rights granted under § 602(a) – but would not significantly alter the value of the rights provided under that provision.⁶ Accordingly, the issue presented implicates no significant policy under the Copyright Act and does not merit this Court’s attention.

⁵ See also Elin Dugan, Note, *United States of America, Home of the Cheap and the Gray: A Comparison of Recent Court Decisions Affecting the U.S. and European Gray Markets*, 33 *Geo. Wash. Int’l L. Rev.* 397, 410 (2001) (explaining that the “gray market” undermines manufacturers’ incentives “to invest in the promotion of their products”).

⁶ “Should it make a difference whether the copyrighted goods were manufactured by the U.S. copyright holder itself, rather than by a licensee of the copyright holder? . . . [S]uch a result would be unfortunate. For it would engender further uncertainty into this difficult area by having importation rights turn on the precise legal relationships among manufacturers, middlemen and distributors.” 2 *Nimmer on Copyright* § 8.12[B][6][b], at 8-178.4(2).

II. THE NINTH CIRCUIT'S DECISION IS CORRECT

Review is particularly unwarranted because the Ninth Circuit's decision – which represents the interpretation of the Copyright Act that has prevailed for a quarter century – is correct.

A. The Decision Gives Effect to the Plain Meaning of §§ 602(a) and 109(a)

1. Contrary to petitioner's argument, the Ninth Circuit's decision is consistent with the plain language of the Copyright Act. Section 602(a) broadly provides that “[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106.” 17 U.S.C. § 602(a). There is no dispute for present purposes that § 602(a) reaches the alleged conduct at issue here: copies of the work were acquired outside of the United States and imported without respondent's authority.

Quality King holds that § 109 provides a defense to infringement under § 602(a) when “a particular copy [is] . . . lawfully made under this title.” *See* 523 U.S. at 145. But a copy made overseas for sale overseas is not “lawfully” (or unlawfully) “made under this title” because the production and sale of the copy does not implicate any of the exclusive rights granted under the Copyright Act. Section 106 of the Copyright Act enumerates copyright owner's “exclusive rights to do and to authorize” certain activities, including the right “to reproduce the copyrighted work.” 17 U.S.C. § 106(1). But those exclusive rights do not apply to conduct that takes place exclusively outside the United States. *See United Dictionary Co. v. G. & C.*

Merriam Co., 208 U.S. 260 (1908); 4 *Nimmer on Copyright* § 17.02, at 17-19 (“[C]opyright laws do not have any extraterritorial operation.”). Accordingly, when a copy is made outside of the United States for sale outside of the United States, it cannot be made “pursuant to, or in compliance with, the Copyright Act” – to use the definition urged by petitioner. Pet. 9. Nor can it be made in violation of the Copyright Act. The Copyright Act simply does not address the conduct.

Petitioner argues that, “because Omega is the U.S. copyright holder, any copies that it makes are necessarily in compliance with 17 U.S.C. § 106(1), which provides the U.S. copyright holder with an exclusive right to make or authorize copies.” Pet. 9-10. But petitioner is simply wrong that § 106(1) gives respondent any right to make or to exclude others from making copies *in Switzerland*. Accordingly, it is nonsensical to say that copies made in Switzerland for sale outside the United States are either lawfully or unlawfully “made under this title.”

The Ninth Circuit’s analysis is also consistent with the exhaustion principle underlying the first-sale doctrine. The exhaustion principle provides that, once a copyright holder has “exercised” one of his exclusive rights under the Copyright Act, *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 351 (1908), the copyright holder can no longer control the further distribution of the particular copy. *See Quality King*, 532 U.S. at 152. In the case of a copyrighted work made and sold abroad without authorization to import the copy or sell it in the United States, the copyright holder has exercised no right *under the Copyright Act*, because the Copyright Act does not, of its own force, apply outside the United States. Put

another way, the copyright holder has *not* placed the copy into the stream of *domestic* commerce by making it and selling it abroad. A right that has not been exercised cannot be “exhausted.”

2. By contrast, petitioner’s preferred construction violates the important principle that a statute must be construed to avoid rendering any of its language surplusage. *See, e.g., TRW Inc. v. Andrews*, 534 U.S. 19, 31 (2001) (“It is a cardinal principle of statutory construction that a statute ought, upon the whole, to be so construed that, if it can be prevented, no clause, sentence, or word shall be superfluous, void, or insignificant.”) (internal quotation marks omitted). In petitioner’s view, “lawfully made *under this title*” simply means lawfully – *i.e.*, not unlawfully – made. But, under this reading, the phrase “under this title” has no separate significance. The Ninth Circuit’s construction recognizes that the phrase “under this title” reflects the principle that conduct that exhausts a copyright holder’s rights under the Copyright Act must be conduct to which the Copyright Act applies in the first place. The making of a copy in the United States involves conduct to which the Copyright Act applies – and is therefore “under this title” – which justifies application of the first-sale doctrine. The making of a copy abroad does not. Likewise, to read “lawfully made under this title” to mean “not unlawfully made” would render superfluous the three statutory exceptions to § 602(a) for the importation of limited numbers of copies for personal, scholarly, or religious purposes, as such copies will frequently be lawfully made under a foreign copyright. *See 2 Goldstein on Copyright* § 7.6.1.2.a, at 7:141-42.

The Ninth Circuit’s construction is further reinforced by the language of § 602(b) – also newly adopted as

part of the Copyright Act of 1976 – which bars importation of copies “where the making of the copies . . . would have constituted an infringement of copyright *if this title had been applicable.*” 17 U.S.C. § 602(b) (emphasis added). By using this language, Congress showed that it was sensitive to the difference between conduct that is “under this title” – *i.e.*, conduct to which the Copyright Act is applicable – and conduct to which the Copyright Act does not apply because (for example) it takes place overseas. The manufacture of goods overseas – even if the manufacture is lawful under foreign law – falls into the latter category.⁷

3. The Ninth Circuit’s holding that a copy made overseas and imported without authorization is not “lawfully made under this title” is consistent throughout the statute. For example, § 110(1) permits “performance or display” of copies, unless, “in the case of a motion picture or other audiovisual work,” the copy

⁷ *Amici*, but not petitioner, argue that § 602(a) is directed solely to the prevention of “importation of *pirated* copies manufactured abroad.” Brief of Public Citizen 8; *see also* Brief for eBay 13 (arguing that § 602(a) does not apply to “genuine goods”). This construction is inconsistent with *Quality King* and the legislative history (as discussed below). Moreover, it makes no sense in light of the fact that Congress knew exactly how to describe piratical goods made abroad, and it did so in § 602(b). Furthermore, that construction would render nonsensical the second sentence of § 602(b) – which provides that the Customs Service has “no authority to prevent . . . importation” of “copies . . . [that] were lawfully made.” 17 U.S.C. § 602(b). That clarification of the scope of Customs Service authority only makes sense if importation of copies that were “lawfully made” – that is, lawfully made under some law *other than* the Copyright Act – can constitute infringement. Otherwise, there would be no question of the Customs Service preventing the importation of such copies.

“was not lawfully made under this title” and the “person responsible for the performance knew or had reason to believe” that the copy was “not lawfully made.” 17 U.S.C. § 110(1). Under the Ninth Circuit’s decision, a person could not knowingly display a copy of a movie in the United States that was imported in violation of § 602(a). There is nothing odd about that.

Petitioner appears to argue that, under the Ninth Circuit’s construction of the phrase “not lawfully made,” the safe harbor of § 110 would not apply to *any* copy made overseas, even if imported and sold with the copyright holder’s authorization. *See* Pet. 10-11. But there is no support for that argument in the Ninth Circuit’s construction of § 109(a). To the contrary, Ninth Circuit law makes clear that, whenever a copyright holder has exercised its right to reproduce *or to distribute* copies in the United States, § 109(a) applies. Referring to its prior decisions in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), and *Denbicare U.S.A. Inc. v. Toys “R” Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996), the Ninth Circuit noted that “parties can raise § 109(a) as a defense in cases involving foreign-made copies so long as a lawful domestic sale has occurred.” Pet. App. 16a. Just as any copy legitimately reproduced or sold in the United States is “lawfully made under this title” for purposes of § 109(a), so too would such a copy be lawfully made under this title for other purposes under the statute.

For related reasons, the argument that the Ninth Circuit’s construction of § 109(a) turns exclusively on the “location of manufacturing,” Pet. 12, cannot be reconciled with the decision below and Ninth Circuit precedent. Under existing Ninth Circuit law, the

first-sale doctrine applies whenever a copy is *either* made in the United States *or* sold in the United States with the copyright holder’s authorization. What matters is whether the particular copy has been made or sold in such a way that the U.S. copyright holder has exercised its exclusive rights under the Copyright Act. Here, petitioner’s sole claim is that the copies were lawfully “made,” *not* that they were imported or distributed with the copyright holder’s authorization. Because the only issue presented to the Ninth Circuit was whether a copy manufactured and sold abroad was lawfully made “under this title,” it is not surprising that the Ninth Circuit limited its decision to the question before it. *See* Pet. App. 17a.

B. The Ninth Circuit’s Decision Is Consistent with *Quality King*

1. Petitioner claims that the Ninth Circuit “blatantly ignore[d]” *Quality King*. Pet. 16. Not so. The Ninth Circuit carefully addressed the holding and reasoning of *Quality King*. In doing so, it concluded correctly that neither required the court to reverse settled Ninth Circuit precedent holding that § 109(a) does not apply where copies are made and sold overseas. *See* Pet. App. 10a-16a.

The Ninth Circuit’s understanding of *Quality King* is correct. The centerpiece of the Court’s opinion is the discussion of the application of § 602(a) “to a category of copies that are neither piratical nor ‘lawfully made under this title,’” including “copies that were ‘lawfully made’ not under the United States Copyright Act, but instead, under the law of some other country.” 523 U.S. at 147. The Court makes clear that there are circumstances in which genuine copies may not be imported without authorization,

first-sale doctrine notwithstanding – as petitioner concedes. *See* Pet. 14; *Quality King*, 523 U.S. at 148. The Ninth Circuit’s decision holds that a copy made and sold overseas falls into the category of copies made “under the law of some other country” – whether manufactured by a U.S. copyright holder or by a licensee under the U.S. copyright holder’s foreign copyright. *See* Pet. App. 15a. There is no credible basis for arguing that this holding conflicts with *Quality King* or its reasoning.

The leading treatises confirm this analysis. *Quality King* dealt with “copyright goods, lawfully made *in the United States*,” that were “shipped abroad for resale and subsequently reintroduced into the United States by the foreign purchaser.” 2 *Goldstein on Copyright* § 7.6.1.2.a, at 7:142. “Because there was no question that the product labels in issue were lawfully made *under United States law*, nor any doubt that their owner had parted with title to them, the defendant was entitled to the first sale defense.” *Id.* at 7:143. But “[t]he Court underscored that the same result would not apply to works manufactured abroad.” *Id.* “At the very least, the Court’s insistence, and Justice Ginsburg’s concurring observation” – *i.e.*, that the Court’s opinion did not “resolve cases in which the allegedly infringing imports were manufactured abroad,” *Quality King*, 523 U.S. at 154 (Ginsburg, J., concurring) – “indicates an intention not to disturb lower court holdings that the first sale defense is unavailable to importers who acquire ownership of gray market goods made abroad and to resellers who acquire ownership in the United States of copies lawfully made abroad but unlawfully imported into the United States.” 2 *Goldstein on Copyright* § 7.6.1.2.a, at 7:144; *see also* 2 *Nimmer on Copyright*

§ 8.12[B][6][c], at 8-178.4(10) (“[T]he Court’s analysis, particularly of the policy underlying importation, can be understood as mandating acceptance of *Scorpio* [*i.e.*, the rule reaffirmed in the opinion below], making that view seemingly the better one.”). “[T]he Copyright Act . . . should still be interpreted to bar the importation of gray market goods that have been manufactured abroad.” 2 *Nimmer on Copyright* § 8.12[B][6][c], at 8-178.4(10).

2. Petitioner argues that the Ninth Circuit “misinterpret[ed] or flatly ignore[d]” *Quality King* when it held that application of the first-sale doctrine to copies made abroad for sale abroad would “amount to an extraterritorial application of the Copyright Act,” claiming that the Court in *Quality King* “rejected . . . an argument virtually identical to that adopted by the Ninth Circuit.” Pet. 18. Petitioner is incorrect. Section 109(a) applies only to copies “lawfully made *under this title*” and provides that the owner of such a copy (*i.e.*, “made under this title”) may “sell or otherwise dispose of the possession of that copy.” 17 U.S.C. § 109(a) (emphasis added). In *Quality King*, the Court held only that an owner of goods “lawfully made *under the Act*” is entitled to the protection of the first-sale doctrine no matter where the first sale occurs. *See* 523 U.S. at 145 n.14 (emphasis added). That interpretation does not require any extraterritorial application of the Copyright Act – a person is no less an “owner” because it purchased a copy abroad rather than in the United States. *See id.* (“Such protection does not require the extraterritorial application of the Act any more than § 602(a)’s ‘acquired abroad’ language does.”).

By contrast, under petitioner’s interpretation, to find that a copy made abroad was “lawfully made

under this title” would imply that the Copyright Act governs the relevant conduct, *i.e.*, merely making a copy outside of the United States for sale abroad. The unquestioned principle that the Copyright Act does not apply outside the United States, *see supra* pp. 13-14, forecloses that interpretation.

C. The Legislative History Reinforces the Conclusion That § 602(a) Applies to Genuine Copies Imported Without Authorization

The conclusion that § 602(a) applies to genuine copies manufactured overseas is confirmed by the legislative history of the Copyright Act. As the House Report explains, “Section 602 . . . deals with two *separate* situations: importation of ‘piratical’ articles (that is, copies . . . made without any authorization of the copyright owner), and unauthorized importation of *copies . . . that were lawfully made.*” H.R. Rep. No. 94-1476, at 169 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5785 (emphases added). The “general rule” is that “unauthorized importation is an infringement merely if the copies . . . ‘have been acquired outside the United States,’” with enumerated exceptions. *Id.* at 169-70, *reprinted in* 1976 U.S.C.C.A.N. 5785-86. The legislative history could not state more unequivocally that § 602(a) was intended to provide an enforcement right against genuine copies made and acquired abroad and imported without authorization.

Petitioner argues that the legislative history of § 109(a) supports its proposed construction, because it indicates that a copy that is “‘legally made under the compulsory licensing provisions of section 115’” would be a copy lawfully made under this title. Pet. 14-15 (quoting H.R. Rep. No. 94-1476, at 79, *reprinted in* 1976 U.S.C.C.A.N. 5693). The argument proves nothing, because there is no dispute that,

where a copy is made pursuant to the compulsory licensing provisions of § 115, it is lawfully made *under this title* – in particular, § 115. A copy can be lawfully made under that provision if the maker complies with the statutory requirements because the maker would have acquired a license *under the U.S. copyright*; the owner of such a copy could then distribute it in the United States without infringing the U.S. copyright. This argument by petitioner does not address whether a genuine copy made overseas is – without more – “lawfully made under this title.”

D. The Ninth Circuit’s Holding Leads to No Absurd Results

Petitioner argues that the decision below “mandates a number of nonsensical outcomes,” Pet. 23, and *amici* seek to add to the list, *see, e.g.*, Brief of Entertainment Merchants Association *et al.* 7-13. But petitioner’s examples – based on hypothetical facts that are not before the Court – either are not absurd at all, misstate the law of the Ninth Circuit, or, at most, identify an open question that this case does not present. Virtually all of the examples ignore the reality that any supposedly paradoxical results can be avoided through contract.

- In the case of a copy of a British edition of a book, made with no license to import or distribute the copy, a traveler could – under an express statutory exception to § 602(a) – import the copy “for . . . private use,” but “*not for distribution.*” 17 U.S.C. § 602(a)(2) (emphasis added). To argue that the sale of such a copy is an infringement simply gives effect to express statutory language. In any event, whether a copy imported pursuant to an exception to § 602(a) should be considered to be subject to

the first-sale doctrine is a question not presented here – indeed, absent systematic abuse, enforcement in such a case would be exceedingly unlikely.

- In the case of a “fine art print,” a dealer would presumably insist on worldwide distribution rights, transferable to any purchaser. *Cf. Discenos Artisticos*, 97 F.3d at 380 (copyright holder “authorized its licensee manufacturers to sell . . . to ‘all countries of the world’”). As noted above, under governing Ninth Circuit law, authorized importation (or authorized sale) in the United States exhausts a U.S. copyright owner’s exclusive rights, including in the case of copies made abroad.
- There would be no obstacle to the resale of a foreign-made compact disc, so long as it was imported or sold in the United States with the U.S. copyright holder’s authorization.
- Libraries can continue to lend foreign-language texts lawfully imported into the United States.
- Merchants can continue to sell or rent DVDs made abroad and lawfully imported.
- Automobile manufacturers and their suppliers can, and presumably do, acquire worldwide, transferable rights to the software they include in automobiles. (And it would be a curious business strategy for a developer of software for use in automobiles to sue car purchasers for infringement.)

More fundamentally, whether the Court were to adopt petitioner’s reading of the Copyright Act or the Ninth Circuit’s would not affect *any* of the examples that petitioner and its *amici* may invent. Petitioner

concedes that, in any case where someone *other than* the U.S. copyright holder manufactures a copy overseas without a license to import or distribute the copy in the United States, such a copy is not “lawfully made under this title.” *See* Pet. 14, 17. The Ninth Circuit’s construction of § 109(a) – which treats all copies made abroad by any entity in the same manner – does not affect the underlying distinction between copies “lawfully made under this title” and copies made “under the law of some other country,” which cannot be imported without authorization.

Petitioner’s interpretation of § 109(a) would make the applicability of the first-sale defense depend on whether the maker – regardless of its nationality and regardless of other copyrights it held in any country – also happens to own a U.S. copyright. That rule *would* lead to absurd and unfair results and impose needless transaction costs. Such a rule would draw distinctions based on “the precise legal relationships among manufacturers, middlemen and distributors.” 2 *Nimmer on Copyright* § 8.12[B][6][b], at 8-178.4(2). The Ninth Circuit’s straightforward reading of §§ 602(a) and 109(a) achieves exactly what Congress intended to achieve – the prohibition of unauthorized importation of genuine copies not lawfully made under the Copyright Act – thus ensuring that a U.S. copyright owner reaps the reward of the exclusive rights granted under the Copyright Act.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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